

CITY OF MORENCI
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MORENCI	County LENAWEE
Audit Date 6/30/05	Opinion Date 10/31/05	Date Accountant Report Submitted to State: 11/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

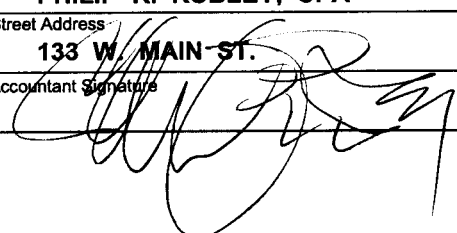
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA			
Street Address 133 W. MAIN ST.	City MORENCI	State MI	ZIP 49256
Accountant Signature 		Date 10/31/05	

**CITY OF MORENCI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Morenci, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Fire Equipment, Morenci Area EMS, Major Street and Local Street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

The City As A Whole

The City's net assets for the year ended June 30, 2005 increased by 1.67% over the prior year. Management feels that because the economic conditions have been slightly depressed, that the City will need to be extremely cautious in 2006.

The governmental activities reflect net assets of \$2,937,735 and the business-type (utilities) of \$3,496,521.

By far the largest portion of the City's net assets (81 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

CITY OF MORENCI, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
<u>Revenue</u>			
Program Revenue:			
Charges for Services	\$ 582,827	\$ 528,133	\$1,110,960
Operating Grants and Contributions	230,174	---	230,174
Capital Grants and Contributions	108,697	---	108,697
General Revenue:			
Property Taxes	589,422	---	589,422
Grants and Contributions Not Restricted To Specific Program	280,659	---	280,659
Other	55,457	8,842	64,299
Total Revenue	<u>1,847,236</u>	<u>536,975</u>	<u>2,384,211</u>
<u>Expenses</u>			
General Government	301,885	---	301,885
Public Safety	767,289	---	767,289
Public Works	545,603	---	545,603
Community and Economic Development	5,380	---	5,380
Recreation and Culture	148,352	---	148,352
Interest on Long-Term Debt	30,349	---	30,349
Utilities Expenses	---	479,374	479,374
Total Expenses	<u>1,798,858</u>	<u>479,374</u>	<u>2,278,232</u>
Increase (Decrease) In Net Assets Before Transfers	<u>48,378</u>	<u>57,601</u>	<u>105,979</u>
Transfers In (Out)	<u>---</u>	<u>---</u>	<u>---</u>
Increase (Decrease) In Net Assets	<u>48,378</u>	<u>57,601</u>	<u>105,979</u>
Net Assets Beginning of Year	<u>2,889,357</u>	<u>3,438,920</u>	<u>6,328,277</u>
Net Assets End of Year	<u>\$2,937,735</u>	<u>\$3,496,521</u>	<u>\$6,434,256</u>

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

CITY OF MORENCI, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Current and Other Assets	\$ 784,246	\$ 636,655	\$ 1,420,901
Capital Assets	<u>3,854,290</u>	<u>4,595,044</u>	<u>8,449,334</u>
Total Assets	<u>4,638,536</u>	<u>5,231,699</u>	<u>9,870,235</u>
Long-Term Liabilities Outstanding	1,498,753	1,710,000	3,208,753
Other Liabilities	<u>202,048</u>	<u>25,178</u>	<u>227,226</u>
Total Liabilities	<u>1,700,801</u>	<u>1,735,178</u>	<u>3,435,979</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	2,355,537	2,885,044	5,240,581
Restricted	---	253,255	253,255
Unrestricted	<u>582,198</u>	<u>358,222</u>	<u>940,420</u>
Total Net Assets	<u>\$2,937,735</u>	<u>\$3,496,521</u>	<u>\$ 6,434,256</u>

Government Activities

Government activities increased the City's net assets by \$48,378.

Business-Type Activities

Business-type activities increased the City's net assets by \$57,601.

The City's Funds

Our analysis of the City's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2005

General Fund Budgetary Highlights

Differences between the original budget and amended budget were minor. Expenses between original budget and amended budget were also relatively minor.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$8,449,334 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 20.06% a significant increase.

Long-term debt of the City decreased by \$399,741 (see Note 8 of the basic financial statements).

Economic Factors And Next Year's Budget And Rates

The City's budget for 2005-2006 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses. The City needs to increase its general fund net expendable assets.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 118 Orchard St., Morenci, Michigan 49256.

PHILIP R. RUBLEY

– Certified Public Accountant –

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

October 31, 2005

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morenci, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

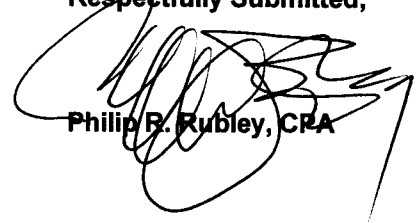
The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morenci, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City of Morenci
October 31, 2005

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip B. Rubley', is written over the printed name.

Philip B. Rubley, CPA

PRR/cab

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and Equivalents	\$ 470,256	\$ 33,396	\$ 503,652
Investments	220,143	222,949	443,092
Receivables - Net	70,736	99,180	169,916
Inventory	564	3,050	3,614
Prepaid Items and Other Assets	22,547	24,825	47,372
Restricted Cash	---	253,255	253,255
Capital Assets Not Being Depreciated	750,967	77,442	828,409
Capital Assets Being Depreciated - Net	<u>3,103,323</u>	<u>4,517,602</u>	<u>7,620,925</u>
Total Assets	<u>4,638,536</u>	<u>5,231,699</u>	<u>9,870,235</u>
<u>Liabilities</u>			
Accounts Payable and Accrued Expenses	202,048	25,178	227,226
Long-Term Liabilities:			
Due Within One Year	129,851	245,000	374,851
Due In More Than One Year	<u>1,368,902</u>	<u>1,465,000</u>	<u>2,833,902</u>
Total Liabilities	<u>1,700,801</u>	<u>1,735,178</u>	<u>3,435,979</u>
<u>Net Assets</u>			
Invested In Capital Assets, Net of Related Debt			
Debt Service	2,355,537	2,885,044	5,240,581
Replacement	---	253,255	253,255
Unrestricted	<u>582,198</u>	<u>358,222</u>	<u>940,420</u>
Total Net Assets	<u>\$2,937,735</u>	<u>\$3,496,521</u>	<u>\$6,434,256</u>

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
<u>Primary Government</u>					
<u>Governmental Activities:</u>					
General Government	\$ 301,885	\$ 94,047	\$ 15,865	\$ ---	\$ (191,973)
Public Safety	767,289	231,028	44,843	---	(491,418)
Public Works	545,603	254,058	169,466	108,697	(13,382)
Community and Economic Development	5,380	---	---	---	(5,380)
Recreation and Culture	148,352	3,694	---	---	(144,658)
Interest on Long-Term Debt	30,349	---	---	---	(30,349)
Total Governmental Activities	<u>1,798,858</u>	<u>582,827</u>	<u>230,174</u>	<u>108,697</u>	<u>(877,160)</u>
<u>Business-Type Activities:</u>					
Utilities	<u>479,374</u>	<u>528,133</u>	<u>---</u>	<u>---</u>	<u>48,759</u>
Total Business-Type Activities	<u>479,374</u>	<u>528,133</u>	<u>---</u>	<u>---</u>	<u>48,759</u>
Total Primary Government	<u>\$2,278,232</u>	<u>\$1,110,960</u>	<u>\$230,174</u>	<u>\$108,697</u>	<u>\$ (828,401)</u>

CITY OF MORENCI, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2005

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Changes In Net Assets</u>			
Net (Expense) Revenue	\$ (877,160)	\$ 48,759	\$ (828,401)
General Revenues:			
Property Taxes	589,422	---	589,422
Grants and Contributions Not Restricted To Specific Programs	280,659	---	280,659
Unrestricted Investment Earnings and Rentals	<u>55,457</u>	<u>8,842</u>	<u>64,299</u>
Total General Revenues, Contributions and Transfers	<u>925,538</u>	<u>8,842</u>	<u>934,380</u>
Change In Net Assets	48,378	57,601	105,979
Net Assets, Beginning of Year	<u>2,889,357</u>	<u>3,438,920</u>	<u>6,328,277</u>
Net Assets, End of Year	<u>\$2,937,735</u>	<u>\$3,496,521</u>	<u>\$6,434,256</u>

CITY OF MORENCI, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 21,394	\$ 6,371	\$ 1,612
Investments	103,060	90,936	---
Prepaid Expenses	19,242	---	36
Receivables - Net	9,915	21,179	7,228
Due from Other Funds	1,394	3,371	39,958
Inventories	564	---	---
Land	---	---	---
Total Assets	<u>\$155,569</u>	<u>\$121,857</u>	<u>\$ 48,834</u>
<u>LIABILITIES</u>			
Accounts Payable/Accrued Liabilities	\$164,932	\$ 2,517	\$ 1,843
Due to Other Funds	40,104	---	3,407
Deferred Revenue	1,100	---	---
Total Liabilities	<u>206,136</u>	<u>2,517</u>	<u>5,250</u>
<u>FUND BALANCES</u>			
Unreserved	<u>(50,567)</u>	<u>119,340</u>	<u>43,584</u>
Total Fund Balances	<u>(50,567)</u>	<u>119,340</u>	<u>43,584</u>
Total Liabilities and Fund Balances	<u>\$155,569</u>	<u>\$121,857</u>	<u>\$ 48,834</u>

The notes to financial statements are an integral part of this statement.

Fire Equipment Fund	Morenci Area EMS	Non-Major Governmental Funds	Other Total Governmental Funds
\$120,733	\$41,626	\$46,268	\$238,004
---	---	12,106	206,102
---	1,074	---	20,352
416	20,305	2,283	61,326
---	---	63	44,786
---	---	---	564
---	---	11,266	11,266
<u>\$121,149</u>	<u>\$63,005</u>	<u>\$71,986</u>	<u>\$582,400</u>
 \$ ---	 \$ 9,080	 \$ 6,497	 \$184,869
1,185	---	90	44,786
---	---	---	1,100
<u>1,185</u>	<u>9,080</u>	<u>6,587</u>	<u>230,755</u>
 <u>119,964</u>	 <u>53,925</u>	 <u>65,399</u>	 <u>351,645</u>
 <u>119,964</u>	 <u>53,925</u>	 <u>65,399</u>	 <u>351,645</u>
 <u>\$121,149</u>	 <u>\$63,005</u>	 <u>\$71,986</u>	 <u>\$582,400</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet For Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund Balances – Total Governmental Funds

\$ 351,645

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital Assets

5,673,116

Deduct: Accumulated Depreciation

(1,830,092)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund.

255,915

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: Bonds and notes payable

(1,498,753)

Deduct: Accrued interest on bonds

(13,795)

Deduct: Accrued interest on note

(1,401)

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.

1,100

Net Assets of Governmental Activities

\$ 2,937,735

CITY OF MORENCI, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
REVENUES			
Taxes and Assessments	\$ 450,623	\$ ---	\$ ---
Intergovernmental	280,659	124,784	44,682
Grants	25,000	108,697	---
Licenses and Permits	17,822	---	---
Fines and Forfeitures	10,314	---	---
Charges for Services	219,284	---	---
Interest and Rentals	48,722	3,590	26
Contributions	633	---	---
Other	29,859	---	---
Total Revenue	<u>1,082,916</u>	<u>237,071</u>	<u>44,708</u>
EXPENDITURES			
Current:			
General Government	291,915	---	---
Public Safety	404,290	---	---
Public Works	98,860	160,631	74,413
Community Economic Development	5,380	---	---
Recreation and Culture	112,458	---	---
Capital Outlay	24,674	---	---
Other Functions	189,207	---	---
Total Expenditures	<u>1,126,784</u>	<u>160,631</u>	<u>74,413</u>
Excess of Revenue Over (Under) Expenditures	(43,868)	76,440	(29,705)
Other Financing Sources (Uses)			
Debt Issued	---	---	---
Transfers In	32,044	283	19,421
Transfers (Out)	(1,762)	(17,942)	---
Total Other Financing Sources (Uses)	<u>30,282</u>	<u>(17,659)</u>	<u>19,421</u>
Net Change In Fund Balances	(13,586)	58,781	(10,284)
Fund Balances – Beginning of Year	<u>(36,981)</u>	<u>60,559</u>	<u>53,868</u>
Fund Balances – End of Year (Deficit)	<u>\$ (50,567)</u>	<u>\$119,340</u>	<u>\$43,584</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Equipment Fund</u>	<u>Morenci Area EMS</u>	<u>Non-Major Governmental Funds</u>	<u>Other Total Governmental Funds</u>
\$ ---	\$137,699	\$ ---	\$ 588,322
---	---	---	450,125
---	---	---	133,697
---	---	---	17,822
---	---	---	10,314
7,947	98,575	58,735	384,541
2,141	573	405	55,457
---	6,245	13,598	20,476
<u>9,900</u>	<u>3,525</u>	<u>31,258</u>	<u>74,542</u>
<u>19,988</u>	<u>246,617</u>	<u>103,996</u>	<u>1,735,296</u>
---	---	---	291,915
---	259,745	19,132	683,167
---	---	58,175	392,079
---	---	---	5,380
---	---	25,179	137,637
35,686	---	5,244	65,604
<u>4,190</u>	<u>---</u>	<u>---</u>	<u>193,397</u>
<u>39,876</u>	<u>259,745</u>	<u>107,730</u>	<u>1,769,179</u>
(19,888)	(13,128)	(3,734)	33,883
26,955	---	---	26,955
---	---	---	51,748
<u>(32,044)</u>	<u>---</u>	<u>---</u>	<u>(51,748)</u>
<u>(5,089)</u>	<u>---</u>	<u>---</u>	<u>26,955</u>
(24,977)	(13,128)	(3,734)	(6,928)
<u>144,941</u>	<u>67,053</u>	<u>69,133</u>	<u>358,573</u>
<u>\$119,964</u>	<u>\$ 53,925</u>	<u>\$ 65,399</u>	<u>\$ 351,645</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2005

Net Change In Fund Balances – Total Governmental Funds

\$ (6,928)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital Outlay

56,854

Deduct: Depreciation Expense

(169,851)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: Principal payments on long-term liabilities

159,741

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: Increase in interest payable on bonds and notes

3,307

Loans are treated as income on the funds statement, but are loans on the government-wide.

(26,955)

An internal service fund is used by management to charge certain costs of equipment usage to individual governmental funds - net increase in assets.

31,110

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.

1,100

Change In Net Assets Of Governmental Activities

\$ 48,378

CITY OF MORENCI, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 10,935	\$254,713
Investments	222,949	14,041
Due to Other Funds	13,000	---
Accounts Receivable	99,065	9,401
Interest Receivable	115	9
Inventory	3,050	---
Prepaid Expense	24,825	2,195
Noncurrent Assets:		
Restricted Cash	253,255	---
Property and Equipment - Net	<u>4,595,044</u>	<u>69,333</u>
Total Noncurrent Assets	<u>4,848,299</u>	<u>69,333</u>
Total Assets	<u>\$5,222,238</u>	<u>\$349,692</u>
Liabilities		
Current Liabilities:		
Due to Other Funds	\$ 13,000	\$ ---
Accounts Payable and Accrued Liabilities/Deposits	18,219	1,983
Accrued Equipment Rent	6,959	---
Bonds Payable, Current Portion	<u>245,000</u>	<u>---</u>
Total Current Liabilities	<u>283,178</u>	<u>1,983</u>
Noncurrent Liabilities:		
Bonds Payable	<u>1,465,000</u>	---
Total Noncurrent Liabilities	<u>1,465,000</u>	<u>---</u>
Total Liabilities	<u>1,748,178</u>	<u>1,983</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,885,044	69,333
Restricted for Replacement	253,255	---
Unrestricted	<u>335,761</u>	<u>278,376</u>
Total Net Assets	3,474,060	<u>\$347,709</u>
Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>22,461</u>	
Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$3,496,521</u>	

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Funds
For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Charges for Services	\$ 528,569	\$133,031
Liabilities		
Salaries and Wages	121,600	20,562
Fringe Benefits	64,208	12,046
Office Expenses	10,430	3,470
Supplies and Materials	42,704	41,351
Utilities	26,553	---
Depreciation	168,665	17,295
Other Expenses	2,527	5,876
Total Operating Expenses	<u>436,687</u>	<u>100,600</u>
Operating Income (Loss)	<u>91,882</u>	<u>32,431</u>
Non-Operating Revenues (Expenses)		
Investment Income	8,842	699
Interest Expense	(42,687)	---
Other - Miscellaneous	---	---
Total Non-Operating Revenues (Expenses)	<u>(33,845)</u>	<u>699</u>
Other Financing Sources		
Transfer (out)	---	---
Transfer In	---	---
Total Other Financing Sources	<u>---</u>	<u>---</u>
Income (Loss) Before Transfers	58,037	33,130
Net Assets, Beginning of Year	<u>3,416,023</u>	<u>314,579</u>
Net Assets, End of Year	<u>\$3,474,060</u>	<u>\$347,709</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses and Changes
In Net Assets of Enterprise Funds to the Statement of Activities
June 30, 2005

Change In Net Assets – All Enterprise Funds

\$58,037

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

(436)

Change In Net Assets Of Business-Type Activities

\$57,601

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2005

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	<u>Governmental</u> <u>Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Cash Received from Customers/Assessments	\$ 515,173	\$ ---
Cash Received Miscellaneous	---	130,472
Cash Payment to Suppliers For Goods and Services/Employees	<u>(260,835)</u>	<u>(81,920)</u>
Net Cash Provided (Used)	<u>254,338</u>	<u>48,552</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Capital Assets	---	(9,375)
Bond Principal Payments	(240,000)	---
Bond Interest Payments	<u>(43,323)</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(283,323)</u>	<u>(9,375)</u>
Cash Flows From Investing Activities		
Investment Income	8,931	798
Investments - Long Term	<u>11,990</u>	<u>(14,041)</u>
Net Cash Provided (Used) by Investing Activities	<u>20,921</u>	<u>(13,243)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,064)	25,934
Cash and Cash Equivalents, Beginning of Year	<u>272,254</u>	<u>228,779</u>
Cash and Cash Equivalents, End of Year	<u>\$ 264,190</u>	<u>\$254,713</u>
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	\$ 10,935	\$254,713
Restricted Cash and Cash Equivalents	<u>253,255</u>	<u>---</u>
	<u>\$ 264,190</u>	<u>\$254,713</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 58,037	\$ 33,130
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	168,665	17,295
Changes in Assets and Liabilities:		
Accounts Receivable/Investments/Interest	18,683	(15,015)
Accounts Payable, Accrued		
Liabilities, Bonds Current Portion	(15,791)	(101)
Other Assets	<u>2,342</u>	<u>---</u>
Net Cash Provided (Used) by Operating Activities	<u>231,936</u>	<u>35,309</u>
Cash Flows from Capital Activities:		
Acquisition of Capital Assets	<u>---</u>	<u>(9,375)</u>
Net Cash (Used) from Capital Activities	<u>---</u>	<u>(9,375)</u>
Cash Flows From Financing Activities:		
Principal Paid on Bonds	<u>(240,000)</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>(240,000)</u>	<u>---</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,064)	25,934
Cash and Cash Equivalents, Beginning of Year	<u>272,254</u>	<u>228,779</u>
Cash and Cash Equivalents, End of Year	<u>\$ 264,190</u>	<u>\$254,713</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Morenci, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

City of Morenci, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

The financial statement of the City does not include the Morenci Stair Library which is under separate audit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Equipment Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing equipment purchases for public safety.

The Morenci Area EMS Fund is a Special Revenue Fund that receives monies from contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community and surrounding townships.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Water and Sewer Fund combined as the Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statues authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

Obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Mayor presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations In Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2005, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Council and General	\$ 44,355	\$ 75,258	\$(30,903)
Assessing	9,680	12,270	(2,590)
Cemetery	56,073	59,980	(3,907)
Elections	3,285	3,840	(555)
Public Works:			
Street and Traffic Lights	25,500	27,254	(1,754)
Public Safety:			
Inspections	14,105	14,242	(137)
Recreation and Culture:			
Parks	35,973	40,319	(4,346)
Library	72,027	72,139	(112)
Major Street Fund:			
Public Works	119,774	178,573	(58,799)
Local Street Fund:			
Public Works	67,257	74,413	(7,156)

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category</u> <u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Other Investments	\$ ---	\$ 11,106	\$ ---	\$ 11,106	\$ 11,106
Checking and Savings Accounts, Etc.	100,000	645,801	\$ ---	745,801	745,801
Investments - Certificates of Deposits	<u>100,000</u>	<u>343,092</u>	<u>---</u>	<u>443,092</u>	<u>443,092</u>
	<u>\$200,000</u>	<u>\$999,999</u>	<u>\$ ---</u>	<u>\$1,199,999</u>	<u>\$1,199,999</u>

Balance Sheet Cash And Cash Investments

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's deposits are as follows:

<u>Deposits</u>	<u>Carrying</u> <u>Amount</u>
Insured (FDIC) (FSLIC)	\$ 200,000
Uninsured:	
Uncollateralized	<u>999,999</u>
Total	<u>\$1,199,999</u>

Total cash consist of: Cash and cash investments of \$946,744 and restricted cash of \$253,255.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 750,967	\$ ---	\$ ---	\$ 750,967
	<u>750,967</u>	<u>---</u>	<u>---</u>	<u>750,967</u>
Capital Assets, Being Depreciated:				
Buildings	883,140	---	---	883,140
Vehicles	1,115,890	31,627	(3,335)	1,144,182
Equipment	710,711	15,823	---	726,534
Infrastructure	2,170,425	9,134	---	2,179,559
Total Capital Assets Being Depreciated	<u>4,880,166</u>	<u>56,584</u>	<u>(3,335)</u>	<u>4,933,415</u>
Less Accumulated Depreciation For:				
Buildings	(345,033)	(20,146)	---	(365,179)
Vehicles	(538,380)	(47,407)	3,335	(582,452)
Equipment	(510,261)	(38,571)	---	(548,832)
Infrastructure	(269,902)	(63,727)	---	(333,629)
Total Accumulated Depreciation	<u>(1,663,576)</u>	<u>(169,851)</u>	<u>3,335</u>	<u>(1,830,092)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,216,590</u>	<u>(113,267)</u>	<u>---</u>	<u>3,103,323</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,967,557</u>	<u>\$ (113,267)</u>	<u>\$ ---</u>	<u>\$ 3,854,290</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,442	\$ ---	\$ ---	\$ 77,442
	<u>77,442</u>	<u>---</u>	<u>---</u>	<u>77,442</u>
Capital Assets, Being Depreciated:				
Buildings, Systems & Equipment	7,601,183	---	---	7,601,183
Total Capital Assets Being Depreciated	<u>7,601,183</u>	<u>---</u>	<u>---</u>	<u>7,601,183</u>
Less Accumulated Depreciation For:				
Buildings, Systems & Equipment	(2,914,916)	(168,665)	---	(3,083,581)
Total Accumulated Depreciation	<u>(2,914,916)</u>	<u>(168,665)</u>	<u>---</u>	<u>(3,083,581)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,686,267</u>	<u>(168,665)</u>	<u>---</u>	<u>4,517,602</u>
Business Type Activities Capital Assets, Net	<u>\$ 4,763,709</u>	<u>\$ (168,665)</u>	<u>\$ ---</u>	<u>\$ 4,595,044</u>

Depreciation expense was charged to functions/programs of the City as follows:

General Government	\$ 9,970
Public Safety	67,477
Public Works	66,145
Culture and Recreation	8,964
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	17,295

\$169,851

Utilities	\$168,665
-----------	-----------

\$168,665

At June 30, 2005, the following were interfund receivables and payables in the fund statement.

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CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$32,044	\$ 1,762
Major Street	283	17,942
Local	19,421	---
Fire Equipment	---	32,044
	<u>\$51,748</u>	<u>\$51,748</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on August 31st with a 1% interest charge beginning October 1st. All delinquent taxes are charged with a 4% penalty.

Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance</u> <u>July 1,</u> <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>
Sanitary Sewer Bonds - Series I	\$ 150,000	\$ ---	\$ 50,000	\$ 100,000
Sanitary Sewer Bonds Series II	1,435,000	---	165,000	1,270,000
Notes Payable - Bank - Ambulance	19,287	---	19,287	---
Bonds Payable - Water Distribution	365,000	---	25,000	340,000
Notes Payable - Industrial - Park - Land	267,252	---	66,726	200,526
Construction Bond - General Obligation	1,345,000	---	70,000	1,275,000
Notes Payable - Bank - 2005 Ford Pickup	---	26,955	3,728	23,227
Total	<u>\$3,581,539</u>	<u>\$26,955</u>	<u>\$399,741</u>	<u>\$3,208,753</u>

City of Morenci – Sanitary Sewer System Bonds

Title of Issue: City of Morenci - Series I Sanitary Sewer System Bonds
Purpose: Sanitary Sewer System
Interest Rate: 6.0% - Current
Interest Payable: Semi-Annual on January and July of each year
Amount of Issue: \$900,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2006	\$ 56,000	\$6,000	\$ 50,000
2007	53,000	3,000	50,000
	<u>\$109,000</u>	<u>\$9,000</u>	<u>\$100,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

City of Morenci – Sanitary Sewer Systems Bonds

Title of Issue: City of Morenci - Series II Sanitary Sewer Systems Bonds
Purpose: Sanitary Sewer System
Interest Rate: 2.0% - Current
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$3,087,009

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2005	\$ 182,700	\$12,700	\$ 170,000
April 1, 2006	11,000	11,000	
October 1, 2006	186,000	11,000	175,000
April 1, 2007	9,250	9,250	
October 1, 2007	189,250	9,250	180,000
April 1, 2008	7,450	7,450	
October 1, 2008	187,450	7,450	180,000
April 1, 2009	5,650	5,650	
October 1, 2009	190,650	5,650	185,000
April 1, 2010	3,800	3,800	
October 1, 2010	193,800	3,800	190,000
April 1, 2011	1,900	1,900	
October 1, 2011	191,900	1,900	190,000
	<u>\$1,360,800</u>	<u>\$90,800</u>	<u>\$1,270,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

City of Morenci – Revenue Sharing Bonds – Water Distribution

Title of Issue: Refunding of 1992A MBIA Revenue Sharing - Morenci
Purpose: Water Distribution
Date of Issue: May 13, 2004
Maturity Date: November 1, 2016
Interest Rate: 2.0% to 5.0%
Interest Payable: Semi-Annually
Amount of Issue: \$365,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
November 1, 2005	\$ 30,740	\$ 5,740	\$ 25,000
May 1, 2006	5,490	5,490	
November 1, 2006	30,490	5,490	25,000
May 1, 2007	5,240	5,240	
November 1, 2007	35,240	5,240	30,000
May 1, 2008	4,903	4,903	
November 1, 2008	34,903	4,903	30,000
May 1, 2009	4,490	4,490	
November 1, 2009	24,490	4,490	20,000
May 1, 2010	4,190	4,190	
November 1, 2010	29,190	4,190	25,000
May 1, 2011	3,790	3,790	
November 1, 2011	28,790	3,790	25,000
May 1, 2012	3,353	3,353	
November 1, 2012	33,353	3,353	30,000
May 1, 2013	2,790	2,790	
November 1, 2013	32,790	2,790	30,000
May 1, 2014	2,190	2,190	
November 1, 2014	37,190	2,190	35,000
May 1, 2015	1,490	1,490	
November 1, 2015	31,490	1,490	30,000
May 1, 2016	875	875	
November 1, 2016	35,875	875	35,000
	<u>\$423,342</u>	<u>\$83,342</u>	<u>\$340,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

City of Morenci – Industrial Park – Land

Purpose: Industrial Park Development - Land
Interest Rate: 2.31%
Amount of Issue: \$440,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
September 12, 2005	\$ 26,327	\$ 2,316	\$ 24,011
March 12, 2006	26,327	2,038	24,289
September 12, 2006	26,327	1,758	24,569
March 12, 2007	26,327	1,474	24,853
September 12, 2007	26,327	1,187	25,140
March 12, 2008	26,327	897	25,430
September 12, 2008	26,327	603	25,724
March 12, 2009	<u>26,816</u>	<u>306</u>	<u>26,510</u>
	<u>\$211,105</u>	<u>\$10,579</u>	<u>\$200,526</u>

City of Morenci – General Obligation Bonds

Purpose: Downtown Development - Street Scape
Interest Rate: 4.4%
Amount of Issue: \$1,380,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2005	\$ 63,050	\$ 28,050	\$ 35,000
April 1, 2006	67,280	27,280	40,000
October 1, 2006	66,400	26,400	40,000
April 1, 2007	65,520	25,520	40,000
October 1, 2007	64,640	24,640	40,000
April 1, 2008	63,760	23,760	40,000
October 1, 2008	62,880	22,880	40,000
April 1, 2009	67,000	22,000	45,000
October 1, 2009	66,010	21,010	45,000
April 1, 2010	65,020	20,020	45,000
October 1, 2010	64,030	19,030	45,000
April 1, 2011	63,040	18,040	45,000
October 1, 2011	67,050	17,050	50,000
April 1, 2012	65,950	15,950	50,000
October 1, 2012	64,850	14,850	50,000
April 1, 2013	63,750	13,750	50,000
October 1, 2013	62,650	12,650	50,000
April 1, 2014	66,550	11,550	55,000
October 1, 2014	65,340	10,340	55,000
April 1, 2015	64,130	9,130	55,000
October 1, 2015	62,920	7,920	55,000
April 1, 2016	66,710	6,710	60,000
October 1, 2016	65,390	5,390	60,000
April 1, 2017	64,070	4,070	60,000
October 1, 2017	62,750	2,750	60,000
April 1, 2018	<u>66,430</u>	<u>1,430</u>	<u>65,000</u>
	<u>\$1,687,170</u>	<u>\$412,170</u>	<u>\$1,275,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2005

City of Morenci – 2005 Ford Pickup

Purpose: Purchase 2005 Ford Pickup - Fire Department
Interest Rate: 3.125%
Amount of Issue: \$26,955
Payments: Monthly at \$599 including interest starting December 22, 2004

<u>Fiscal Year Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2005 - 2006	\$ 7,184	\$ 633	\$ 6,551
2006 - 2007	7,184	425	6,759
2007 - 2008	7,184	211	6,973
2008	<u>2,967</u>	<u>23</u>	<u>2,944</u>
	<u>\$24,519</u>	<u>\$1,292</u>	<u>\$23,227</u>

Maturities of Long-Term Debt

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2006	\$ 374,851
2007	386,181
2008	296,973
2009	297,944
2010	295,000
There After	<u>1,557,804</u>
	<u>\$3,208,753</u>

NOTE 9 – PENSION PLAN

The City of Morenci has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Contribution by the City for fiscal year 2005 was \$31,192.

NOTE 10 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance				
Resources (Inflows)	\$ 117,000	\$ 117,000	\$ (36,981)	\$ (153,981)
Taxes and Assessments	514,165	514,165	450,623	(63,542)
Intergovernmental	286,506	286,506	280,659	(5,847)
Grants	25,000	25,000	25,000	---
Licenses and Permits	14,049	14,049	17,822	3,773
Fines and Forfeitures	5,591	5,591	10,314	4,723
Charges For Services	110,373	110,373	219,284	108,911
Interest and Rentals	37,653	37,653	48,722	11,069
Other	26,841	26,841	29,859	3,018
Contributions	10,000	10,000	633	(9,367)
Transfers In Other Funds	90,000	90,000	32,044	(57,956)
Amounts Available for Appropriation	<u>1,237,178</u>	<u>1,237,178</u>	<u>1,077,979</u>	<u>(159,199)</u>
Charges to Appropriations (Outflows)				
General Government				
City Council	44,355	44,355	75,258	(30,903)
City Mayor	1,292	1,292	1,290	2
Treasurer	16,130	16,130	15,969	161
Assessing	9,680	9,680	12,270	(2,590)
Clerk	53,579	53,579	48,350	5,229
Elections	3,285	3,285	3,840	(555)
Buildings and Grounds	85,145	85,145	74,536	10,609
Board of Review	615	615	422	193
Cemetery	56,073	56,073	59,980	(3,907)
	<u>270,154</u>	<u>270,154</u>	<u>291,915</u>	<u>(21,761)</u>
Public Safety				
Police	337,309	337,309	323,483	13,826
Inspections	14,105	14,105	14,242	(137)
Fire	70,190	70,190	66,565	3,625
	<u>421,604</u>	<u>421,604</u>	<u>404,290</u>	<u>17,314</u>
Community Economic Development				
Planning and Zoning	<u>3,220</u>	<u>3,220</u>	<u>5,380</u>	<u>(2,160)</u>
Public Works				
Street and Traffic Lights	25,500	25,500	27,254	(1,754)
Sanitation	74,931	74,931	71,606	3,325
	<u>100,431</u>	<u>100,431</u>	<u>98,860</u>	<u>1,571</u>
Recreation and Culture				
Library	72,027	72,027	72,139	(112)
Park	35,973	35,973	40,319	(4,346)
	<u>108,000</u>	<u>108,000</u>	<u>112,458</u>	<u>(4,458)</u>
Capital Outlay	<u>33,500</u>	<u>33,500</u>	<u>24,674</u>	<u>8,826</u>
Other Functions	<u>299,269</u>	<u>299,269</u>	<u>189,207</u>	<u>110,062</u>
Transfers to Other Funds	<u>1,000</u>	<u>1,000</u>	<u>1,762</u>	<u>(762)</u>
Total Charges to Appropriations	<u>1,237,178</u>	<u>1,237,178</u>	<u>1,128,546</u>	<u>108,632</u>
Ending of Year Fund Balance (Deficit)	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (50,567)</u>	<u>\$ (50,567)</u>

The notes to financial statements are an integral part of this statement.

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Fire Equipment Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$112,505	\$112,505	\$144,941	\$ 32,436
Charge for Services	25,000	25,000	7,947	(17,053)
Sale of Equipment	175	175	9,900	9,725
Interest Income	600	600	2,141	1,541
Loan - Capital Outlay	<u>---</u>	<u>---</u>	<u>26,955</u>	<u>26,955</u>
Amounts Available for Appropriation	<u>138,280</u>	<u>138,280</u>	<u>191,884</u>	<u>53,604</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	138,280	138,280	39,876	98,404
Transfers Out to Other Funds	<u>---</u>	<u>---</u>	<u>32,044</u>	<u>(32,044)</u>
Total Charges to Appropriations	<u>138,280</u>	<u>138,280</u>	<u>71,920</u>	<u>66,360</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$119,964</u>	<u>\$119,964</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Morenci Area EMS Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ 7,719	\$ 7,719	\$ 67,053	\$ 59,334
Assessments	154,150	154,150	137,699	(16,451)
Charges for Services	123,262	123,262	98,575	(24,687)
Contributions	2,000	2,000	6,245	4,245
Interest Income	50	50	573	523
Other	---	---	3,525	3,525
Amounts Available for Appropriation	<u>287,181</u>	<u>287,181</u>	<u>313,670</u>	<u>26,489</u>
<u>Charges to Appropriations (Outflows)</u>				
Transfers to Other Funds	<u>287,181</u>	<u>287,181</u>	<u>259,745</u>	<u>27,436</u>
Total Charges to Appropriations	<u>287,181</u>	<u>287,181</u>	<u>259,745</u>	<u>27,436</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 53,925</u>	<u>\$ 53,925</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Special Revenue Fund)
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ ---	\$ ---	\$ 60,559	\$ 60,559
Intergovernmental	119,614	119,614	124,784	5,170
Interest Income	160	160	3,590	3,430
Transfers from Other Funds	---	---	283	283
Grant - State	---	---	108,697	108,697
Amounts Available for Appropriation	<u>119,774</u>	<u>119,774</u>	<u>297,913</u>	<u>178,139</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	119,774	119,774	160,631	(40,857)
Transfers to Other Funds	---	---	17,942	(17,942)
Total Charges to Appropriations	<u>119,774</u>	<u>119,774</u>	<u>178,573</u>	<u>(58,799)</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$119,340</u>	<u>\$119,340</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Special Revenue Fund)
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$22,957	\$22,957	\$ 53,868	\$30,911
Intergovernmental	44,250	44,250	44,682	432
Interest Income	50	50	26	(24)
Transfers from Other Funds	<u>---</u>	<u>---</u>	<u>19,421</u>	<u>19,421</u>
Amounts Available for Appropriation	<u>67,257</u>	<u>67,257</u>	<u>117,997</u>	<u>50,740</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	<u>67,257</u>	<u>67,257</u>	<u>74,413</u>	<u>(7,156)</u>
Total Charges to Appropriations	<u>67,257</u>	<u>67,257</u>	<u>74,413</u>	<u>(7,156)</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 43,584</u>	<u>\$43,584</u>

CITY OF MORENCI, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	<u>Special Revenue Funds</u>			
	<u>Fire Benefit</u>	<u>Police Equipment</u>	<u>Refuse</u>	<u>Fire Explorers</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$13,047	\$3,884	\$17,899	\$ 878
Receivables	---	---	5	---
Due from Other Funds	---	---	---	---
Investments	11,106	---	---	---
Land	---	---	---	---
Total Assets	<u>\$24,153</u>	<u>\$3,884</u>	<u>\$17,904</u>	<u>\$ 878</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	---
Total Liabilities	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<u>Fund Balance</u>	<u>24,153</u>	<u>3,884</u>	<u>17,904</u>	<u>878</u>
Total Liabilities And Fund Balances	<u>\$24,153</u>	<u>\$3,884</u>	<u>\$17,904</u>	<u>\$ 878</u>

The notes to financial statements are an integral part of this statement.

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ 567	\$6,299	\$ ---	\$ 513	\$3,181	\$46,268
---	2,278	---	---	---	2,283
---	---	---	---	63	63
---	---	1,000	---	---	12,106
---	---	11,266	---	---	11,266
<u>\$ 567</u>	<u>\$8,577</u>	<u>\$12,266</u>	<u>\$ 513</u>	<u>\$3,244</u>	<u>\$71,986</u>
\$ ---	\$6,497	\$ ---	\$ ---	\$ ---	\$ 6,497
---	90	---	---	---	90
---	6,587	---	---	---	6,587
567	1,990	12,266	513	3,244	65,399
<u>\$ 567</u>	<u>\$8,577</u>	<u>\$12,266</u>	<u>\$ 513</u>	<u>\$3,244</u>	<u>\$71,986</u>

CITY OF MORENCI, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2005

Special Revenue Funds

	<u>Fire Benefit</u>	<u>Police Equipment</u>	<u>Refuse</u>	<u>Fire Explorers</u>
<u>Revenues:</u>				
Contributions	\$ 6,306	\$1,280	\$ ---	\$ ---
Charges for Services	---	1,410	57,325	---
Interest and Rents	180	3	188	3
Other Revenue	<u>13,377</u>	<u>---</u>	<u>---</u>	<u>1,220</u>
Total Revenue	<u>19,863</u>	<u>2,693</u>	<u>57,513</u>	<u>1,223</u>
<u>Expenditures:</u>				
Public Safety	15,589	532	---	889
Public Works	---	---	58,175	---
Recreational and Cultural	350	---	---	---
Capital Outlay	<u>4,028</u>	<u>600</u>	<u>---</u>	<u>616</u>
Total Expenditures	<u>19,967</u>	<u>1,132</u>	<u>58,175</u>	<u>1,505</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(104)</u>	<u>1,561</u>	<u>(662)</u>	<u>(282)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	---	---	---	---
Operating Transfers (Out)	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total Other Financing Sources (Uses)	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u>	<u>(104)</u>	<u>1,561</u>	<u>(662)</u>	<u>(282)</u>
<u>Beginning Fund Balance</u>	<u>24,257</u>	<u>2,323</u>	<u>18,566</u>	<u>1,160</u>
<u>Ending Fund Balance</u>	<u>\$24,153</u>	<u>\$3,884</u>	<u>\$17,904</u>	<u>\$ 878</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>				<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ ---	\$ 6,012	\$ ---	\$ ---	\$ ---	\$ 13,598
---	---	---	---	---	58,735
2	16	---	---	13	405
---	<u>15,232</u>	---	<u>1,429</u>	---	<u>31,258</u>
<u>2</u>	<u>21,260</u>	---	<u>1,429</u>	<u>13</u>	<u>103,996</u>
---	---	---	1,204	918	19,132
---	---	---	---	---	58,175
---	---	---	---	---	25,179
---	<u>24,829</u>	---	---	---	<u>5,244</u>
---	<u>24,829</u>	---	<u>1,204</u>	<u>918</u>	<u>107,730</u>
<u>2</u>	<u>(3,569)</u>	---	<u>225</u>	<u>(905)</u>	<u>(3,734)</u>
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
2	(3,569)	---	225	(905)	(3,734)
<u>565</u>	<u>5,559</u>	<u>12,266</u>	<u>288</u>	<u>4,149</u>	<u>69,133</u>
<u>\$ 567</u>	<u>\$ 1,990</u>	<u>\$12,266</u>	<u>\$ 513</u>	<u>\$3,244</u>	<u>\$ 65,399</u>

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MEMBERS OF
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October 31, 2005

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

We have examined the combined financial statements of the City of Morenci, Michigan and the combining, individual fund and account group financial statements of the City as of and for the year ended June 30, 2005 and have issued our report thereon dated October 31, 2005. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2005, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

1. GASB 34 - INFRASTRUCTURE

It is imperative that the City continue to maintain the fixed assets structure created to comply with the change in accounting methods. Keep track of deleted items on a fiscal year basis to allow for proper deletion of assets sold or disposed of.

2. **INVESTMENTS**

It was noted that the Fire Department has investments that are possibly not in compliance with the investment policy of the City and P.A. 55 of 1982, as amended. Even though these amounts are immaterial, compliance needs to be maintained.

3. **DEFICIT FUND BALANCE – GENERAL FUND**

The City needs to come up with a deficit reduction plan applicable to the fund accounting and budget of the general fund.

4. **FIRE DEPARTMENT BENEFIT FUND**

Donations should not be made to other non-profit entities out of these donated and fund raising activities.

5. **CHARGES FOR SERVICES**

Procedures need to be setup to allow the DPW department to submit chargeable transactions for services to City Hall, so proper billing can be made to capture revenue for these services.

6. **DOCUMENTATION**

Even though documentation was good for expenditure items, there were instances of non-compliance where invoices were not available to support the expenditures made.

7. **REVENUE RECOGNITION**

Do not net revenues against expenditures and remit net items (Fire Department) on fund raising activities.

8. **UNIFORM CHART OF ACCOUNTS**

Be sure to comply with the Uniform Chart of Accounts on funds setup, etc.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated October 31, 2005 on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,


Philip R. Rubley, CPA